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E.O. 12958: DECL: 12/20/2016  
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREF](#) [PREL](#) [PINR](#) [CO](#)  
SUBJECT: PRESIDENT URIBE AND CONGRESS: A MIXED RECORD IN  
2006

REF: A. REF A) 2006 BOGOTA 11405

[1](#)B. REF B) 2006 BOGOTA 11243

[1](#)C. REF C) 2006 BOGOTA 11278

Classified By: Political Counselor John S Creamer - Reasons 1.4 (b,d)

[1](#)1. (C) Summary: Despite the U Party and coalition difficulties (ref A), a flurry of end of year Congressional activity resulted in the adoption of five significant reform measures supported by President Uribe: bankruptcy reform, new health care subsidies for the poor, partial privatization of Ecopetrol, tax reform, and the successful conclusion of the first debate toward territorial transfer reform. Uribe Administration officials were generally pleased with the results, but acknowledged the tax reform legislation fell well short of the government's goal of a comprehensive restructuring of the value added and business tax regimes. Uribe has said he will likely call for a special session in January to consider the U.S.-Colombia Trade Promotion Agreement. End Summary.

Congress Bags Uribe's Big Five  
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[1](#)2. (C) Vice Minister of Finance, Juan Pablo Zarate, told us the GOC was generally pleased with the legislative reforms passed by Congress at the close of the 2006 session. While tax reform and the debate over territorial transfers garnered a majority of the mid-December press play, Zarate said changes to Colombia's bankruptcy laws, approval of the partial privatization of Ecopetrol, and health care reform will be as important to Colombia's long term economic and social stability.

[1](#)3. (U) Corporate Bankruptcy Reform - Colombia's corporate bankruptcy regulations contained limited provisions set to expire at the end of the legislative session in 2006. The new, permanent regulations allow companies to emerge from bankruptcy once a restructuring agreement has been reached with creditors, ensuring more timely continuity of business operations. Restructured business are relieved of income tax obligations for three years, and the bankruptcy protections are extended to foreign-based assets, bringing Colombian regulations in line with the practices of most industrialized Western economies.

[1](#)4. (U) Partial Ecopetrol Privatization - Congress passed legislation allowing for the partial privatization (up to 20 percent) of the national oil parastatal, Ecopetrol. Zarate

claimed this was a big victory for the GOC; it will immediately give the Finance Ministry new flexibility in budget planning for 2007. The GOC expects between USD 3-4 billion will be generated during the Ecopetrol public offering (ref B), to be used for exploration investment. This needed investment would otherwise have required Congressional budget authority and the additional issuance of central government debt.

15. (U) Health Care Reform - The reform will help the GOC to extend fully subsidized health care coverage to 8 million additional poor and unemployed Colombians, including demobilized former paramilitary fighters and civilians displaced by violence. Subsidized health care in Colombia is paid in part by a tax on the wages of employed Colombians. Under the reform, the tax will increase from 12 percent of monthly wages to 12.5 percent, with 8.5 percent coming from the employer and 4 percent from the worker. Other reforms include provisions protecting temporary workers, allowing public funding of elective abortions, and restructuring relations between the national insurance administration and public service providers.

16. (U) Transfers: One Round Down, One To Go - President Uribe's bill to reduce federal-to-state tax transfers and reduce projected federal deficits passed its first four debates in Congress; since it is considered constitutional, four more will be needed in 2007 for the bill to become law. The transfers bill was widely unpopular in Congress, and wildly unpopular in the departments. The opposition Liberal and Polo parties opposed it, and Uribe was forced to repeatedly twist arms and offer government jobs to obtain the votes needed to get the bill through the first four debates. The president was also forced to make substantial concessions to the transfer bill--increasing the amounts the federal

government will continue to transfer in out years, and delaying implementation of any substantial cuts--to get the bill through. Zarate said increases in territorial transfers of 3.5-4 percent over inflation per year would be acceptable, given Colombia's historical rate of GDP growth. Anything higher could stretch the central government's ability to

comply with its transfer obligations. All of our contacts agree the GoC will have an even tougher time getting the unpopular bill through its required second round of debates in March--a task that will be made more difficult by state and local elections in October.

17. (C) Tax Reform (Sans Reform) - A much anticipated tax reform bill also passed on December 13, and though the bill included a significant "war tax" measure (ref C), most of the GoC's proposed structural reform elements were removed in Congress. The reform is generally revenue neutral, with modest changes to the collection of the value added tax and a reduction of the highest marginal rate of income tax for business (from 35 to 33 percent). While disappointed with the final outcome (broadening the value added tax base and sheltering investment capital were key reform elements for the Minister of Finance), Zarate said the GOC will likely not propose additional tax reform for the duration of Uribe's second administration - "investors do not like annual tax reform."

US-Colombia Trade Promotion Agreement to be Considered in January

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18. (U) President Uribe announced that he will convene a special session of Congress, likely in late-January or early February, to consider the US-Colombia free trade agreement. Still, Secretary of the Presidency and congressional liaison Bernardo Moreno told us January 15 the GoC has not yet decided if it will call a special congressional session. We have been in constant contact with key members of Congress in the House and Senate Second Commissions responsible for moving the FTA, and expect to receive their plan for FTA timing in the Congress in mid-January.

Other Legislation: Mixed

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19. (U) The Administration saw several other key bills pass, but action on legislation of lower priority to the Uribe Administration will wait until Congress re-convenes in regular session in March. The Law of Public Order which provides the legal basis for talks with illegal armed groups. was re-authorized. A new penal code for minors was passed, reforming sentences and processes. The GoC passed implementing legislation on counterterrorism finance, criminalizing numerous money laundering activities. A bill providing benefits to same-sex couples is stalled in the House, and opponents from all parties are claiming "votes of conscience" to avoid being obligated to support the GoC by the new "Lay de Bancadas" which requires party voting discipline. A bill to reform rural development passed through the Senate, but will require at least several weeks of debate in the House due to controversial provisions opponents claim will benefit paramilitaries who forced people off their land in the past decade (septel).

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